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ARE WE HOLDING THE LINE?

A Radio Discussion by GARFIELD V. COX
A. G. HART *and* GEORGE STIGLER

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Around the Round Table . . . .

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ALBERT GAILORD HART, professor of economics at Iow State College, did his undergraduate college work at Harvar University, where he received his B.A. degree. He did hi graduate work and received his Ph.D. from the University of Chicago where he also served as an instructor in the department of economics Since 1939 Professor Hart has been associated with Iowa State College He is a member of the executive committee of the Conference on Researc in National Income and Wealth and a member of the editorial board o the *American Economic Review*. Professor Hart is the author of *Debts an Recovery* (1938), *Anticipation, Uncertainty, and Dynamic Planning* (1940) and *Paying for Defense* (with E. G. Allen) (1941). He is also a frequen contributor to economic and political journals.

GEORGE STIGLER, associate professor of economics at th University of Minnesota, is at the present time visiting pro fessor in the department of economics of the University o Chicago. He received his A.B. degree from the University of Washingto his M.A. from Northwestern University, and his Ph.D. degree from th University of Chicago. Before going to the University of Minnesota, h taught at Iowa State College. Next year Professor Stigler will be o leave to do special research for the National Bureau of Economic Re search. He is the author of *Production and Distribution Theories* (194 and *Theory of Competitive Price* (1942) and a contributor to numerous ec nomic journals and professional magazines.

ARE WE HOLDING THE LINE?

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MR. COX: I have been looking through some letters that have arrived in the last few days from ROUND TABLE listeners. It is interesting that a number of them raise questions which are the crux of the issues we had in mind to discuss today. They ask if we are holding the line against inflation. Are we?

MR. HART: Offhand, I think we have to say it's touch and go. If everything goes well, the line may hold for months, but it is entirely possible that everything may start sliding within a few days.[1]

MR. COX: Here's another question: Will the Little Steel formula for wage control hold?

MR. STIGLER: I hope that it will. Right now we are at the crucial point. If in the next week John Lewis loses his battle for higher wages, I have high hopes that the Little Steel formula will hold for quite a while.[2]

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[1] The Bureau of Labor Statistics figured that the nation's cost of living was up 22.3 per cent from September 1, 1939, to January, 1943. Most of this rise has been since January, 1941. The sharp rise started in March, 1941, grew much steeper right after Pearl Harbor, and then tended to flatten out a bit with the imposition of price control late in April, 1942. On April 9, 1943, President Roosevelt directed specific dollar-and-cents retail ceiling prices on all cost-of-living commodities with the exception of clothing. This, he explained, was to implement the "hold-the-line" executive order against inflation.

[2] The Little Steel formula, which has been used by the National War Labor Board and which was reaffirmed by President Roosevelt, applies to groups, not to individuals. An increase may be granted to a group of workers to bring their average straight-time rates up to 15 per cent over the level prevailing on January

MR. HART: But, beyond that, I do not think that we can hope to hold it very long unless food prices can be held somewhere in the neighborhood of where they are now.

MR. STIGLER: That is true, and that leads to the next question raised by listeners: Do you think that the recently announced policy of setting meat prices back 10 per cent will really work?[3]

MR. COX: It looks pretty ambitious in view of the recent admission of the Office of Price Administration that actual prices in many areas are already a few per cent above the ceiling prices. Certainly if the prices can be rolled back 10 per cent below the official

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1, 1941. But this does not mean that each employee in the group will get a 15 per cent raise. If a union is involved, the question of how the lump increase shall be distributed within the group is determined by collective bargaining with the employer. Usually, under this system, each individual receives a flat increase of a certain part of the amount, and the rest is used to raise the level of the lower-paid workers. Where there is no union involved and no collective bargaining, the allocation is determined by the employer, and his plan is subject to the approval of the War Labor Board.

The Little Steel formula was first applied in June, 1942. The WLB had estimated that for the period from January 1, 1941, to May, 1942, the cost of living had increased about 15 per cent. Therefore, it said that if any group of workers had averaged less than a 15 per cent increase in hourly wage rates during that period, their "established peacetime standards" had been broken and they were entitled to a raise. In November, 1942, the Board reannounced that if a group of employees had received increases amounting to 15 per cent of their average straight-time rates over the January 1, 1941, level, the Board would "not grant further increases as a correction for maladjustments" (*St. Louis Post-Dispatch*, April 10, 1943).

[3] On May 7, 1943, Price Administrator Prentiss Brown announced the first of the "roll-backs" of retail food prices. Effective on June 1 the ceiling prices of beef, veal, pork, lamb, mutton, coffee, and butter will be cut approximately 10 per cent. The Reconstruction Finance Corporation will make up the difference in price by subsidy payments to the processors, in order to "insure continued production."

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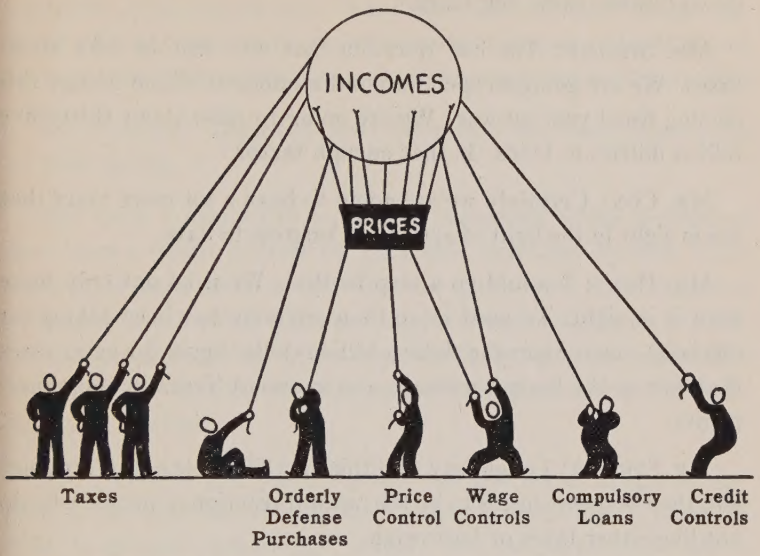
HOW TO KEEP PRICES FROM RISING



Adapted from illustration in John M. Clark, *How To Check Inflation* ("Public Affairs Pamphlet," No. 64 [New York, 1942]).

levels, and if they can be kept there, it will greatly improve the atmosphere in which wage negotiations take place.

MR. STIGLER: But those are mighty big "ifs." Right now we are in effect saying that we hope that the agencies which have not done a very good job in the past will do a good job in the future.

MR. COX: Another question that has been raised asks if hold-the-line tactics will solve the inflation problem.

MR. HART: I do not see how we can hope that just saying that we are going to hold the line and then setting up enforcement machinery will do it alone. We still have the problem of excess spending power. The public has a lot of excess spending power that will have to be tied down if these enforcement problems Stigler was

speaking about are not going to blow up in our faces. Tying those down means taxes—big taxes.[4]

MR. STIGLER: The last question that was sent in asks about taxes. We are going to spend around a hundred billion dollars this coming fiscal year on war. We are going to raise about thirty-five billion dollars in taxes. Is that enough taxes?

MR. COX: Certainly we are going to have a lot more taxes that are in sight in the light of action of Congress to data.

MR. HART: I would go a step further. We need not only more than is in sight; we need more than anybody has been asking for officially—more than the sixteen-billion-dollar figure for extra taxes that was in the budget message and in recent Treasury announcements.

MR. STIGLER: I might say that this fifty-fifty rule of the Treasury and the President seems to be the natural reaction of people who do not like either taxes or borrowing.

MR. HART: Fifty-fifty—meaning what we would have if we took sixteen billion more?

MR. STIGLER: That's right. As far as I am concerned, I think that there is no question but that we have to go all the way to seventy billion dollars, heavy as that tax burden is.

MR. COX: We have been pretty dogmatic in answering these questions. Suppose we turn to the question of the prices of farm products.

MR. STIGLER: What is the general picture? Are farmers very prosperous?

MR. HART: The farmer does not seem to be doing so badly. If one takes the national income statistics, one will find that from 194

[4] See A. G. Hart, Neil Jacoby, and Henry Simons, *Bigger and Better Taxes*, University of Chicago ROUND TABLE transcript, No. 259, broadcast March 1943.

to 1942 the net income of farmers—that is, after allowing for all expenses—is up 120 per cent. It has more than doubled. That compares with a 55 per cent rise in total national income and with about a 65 per cent rise in the incomes of the wage and salary people.[5]

MR. STIGLER: Along with that has gone a very sharp increase in all farm prices.

MR. COX: I would like to quote a statement which is relevant here from a recent address by Economic Stabilizer Byrnes: "The relation of farm costs to farm income is the most favorable ever attained in our history. Between 1939 and 1942 total costs of farm production increased by 38 per cent; and farm production increased by 20 per cent. During the same period farm prices rose on the average by 71 per cent."[6]

MR. STIGLER: The first thing that this general set of figures suggests is the question whether we should have still higher prices in order to stimulate production. I think that we can be fairly safe in saying that the agricultural experts are agreed that, as a whole, the level of agricultural prices, taking them all as a set, are plenty high enough. If we were to raise them another 20 per cent in every case, it is very likely that we would not get any more production.[7]

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[5] See Chris Christensen, T. W. Schultz, and William Spencer, *The Farmer and Victory*, a University of Chicago ROUND TABLE transcript, No. 255, broadcast February 7, 1943.

[6] James F. Byrnes, "Next Steps against Inflation," *Vital Speeches*, March 15, 1943.

[7] ". . . . Since the beginning of the war program in June, 1940, the cash income of farmers has advanced almost as much as factory wages and more rapidly than salaries and wages in general. Last year income in agriculture increased a third more than in manufacturing, and was double that for construction and transportation. Between August, 1939, and October, 1942, prices of farm products rose more than four times as much as industrial prices; food prices increased three times as much. There is no present economic plight for the farmer, despite the implications of leaders playing power politics" (Simeon Leland, "The Struggle for the Control of Inflation," *University of Chicago Magazine*, April, 1942).

MR. COX: I think that that is very true, but there are still problems like cotton. Apparently we have now altogether more short-staple cotton than we need in this country, or in the world for that matter; we have a shortage, in the light of war needs, in long-staple cotton. If we had some way of differentiating so that we would improve the prices of long-staple cotton and by which we would restrain or limit the prices for short-staple cotton, that would be a real contribution to the war effort without raising the general price level.

MR. HART: As I see it, Cox, what you are getting at is that we may not be able to increase the number of tons of crop we get off our farms. What with this year's weather, probably worse than last, that's likely to be down. But a lot of the things that we have been raising do not count very much as war crops, and if we could raise a greater amount of the more important things, we could get a lot more good out of our farm production for war purposes.

MR. COX: That's right. Such things as soya beans, peanuts, potatoes we quite definitely need more of.

MR. STIGLER: What about the mechanism? What should we do? Should we raise the prices of those things that we need, or lower the prices on short-staple cotton and on tobacco and perhaps on butter and one or two other items that we do not need so much?

MR. COX: As a practical matter I suppose lowering the prices is pretty much out. I am afraid that that means, therefore, some selective increase in certain prices. But I would defer the question to Hart, who is much more in touch with the agricultural situation.

MR. HART: Of course, I live with the agricultural economists. One can say that it ought to be possible to make the right farm price adjustments without giving up the hold-the-line policy. That is, the products for which price increases are in line, if we do not have too much increase, do not have to be very many. For instance, we do not need price increases on wheat; we do not need price increases on hogs; we do not, certainly, need price increases on

cotton. The general level of farm prices would not have to go up appreciably in order to do all we can do through prices toward getting the right kind of farm production.

MR. COX: I am sure, too, that a great many farmers—at least those I know (and I know a good many of them personally in this middle western area)—are fairly well satisfied with the prices that they are getting for products. They are not nearly so anxious for higher prices as certain representatives of the so-called "farm bloc" seem to be.[8]

MR. STIGLER: That raises a very interesting point. What about the farm bloc? What are our chances of ever doing anything for soya beans, and nothing for cotton, when the cotton senators are so powerful?

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[8] A statement issued by the executive committee of the Iowa Farm Bureau Federation on March 30, 1943, stated: "The Pace bill, now before congress, would revise upward the formula for calculating parity by including the increased costs of farm help applied to both hired and family labor. The Iowa Farm Bureau has from the beginning viewed this legislation as distinctly inflationary, and is therefore against it.

"On January 30, 1943, 300 County Farm Bureau leaders from throughout the state voted to oppose passage of the Pace bill. . . . . Everyone has a vital interest in winning the battle against inflation. Farmers know from bitter experience the later disastrous effects of spiraling prices. Farmers are not only willing but are anxious to help control inflation. . . . ." They also went on record as desiring a more adequate tax program, more extensive bond purchase program, a farm debt retirement program, and effective price control, including farm prices (*Des Moines Register*, March 30, 1943).

"If we are to believe the Washington spokesmen of the farm bloc, agriculture in this country has reached a pretty pass. They picture the farmer on the very brink of revolt, disgusted with the Administration, furious about price ceilings, crippled by labor shortages. . . . . Out here in Iowa, one of the richest farm states in the union, that picture seems laughably distorted. . . . . A survey just completed by one of our leading farm magazines found that 67 per cent of Iowa's farmers favored the AAA—which the farm bloc is seeking to abolish—and 54 per cent of those questioned thought they were actually better off if told what to produce in wartime. . . . . Recent Gallup polls have shown that most farmers are well satisfied with the prices they are currently receiving. Dozens of farmers I have talked to have agreed, with unparalleled unanimity, that 'prices are good' " (Richard E. Stockwell, "The Farmers Can Take It," *New Republic*, May 15, 1943).

MR. HART: That takes us a bit off the strict economics of it, but I suppose it provides an excuse for branching out quite a long way. Just to make a bold dash into politics, I would be inclined to say that we would have to have quite a different attitude or quite a different setup, or both, in the policy-making machinery. One certainly would not expect to have a national manpower problem policy thrashed out by a committee which consisted entirely of trade-union organizers. Yet the committees in the House and Senate that are responsible for agricultural policy are all representatives of farm constituencies. They think of themselves as people that have to stick up for the farmer before Congress rather than as people who have to lay out the national policy toward food production. That is a rather serious handicap in the problem of getting a proper food policy.

MR. STIGLER: You would suggest, then, that we put on those committees quite a few representatives of urban consumers so that there would be at least some minority opinion in the Congress itself.

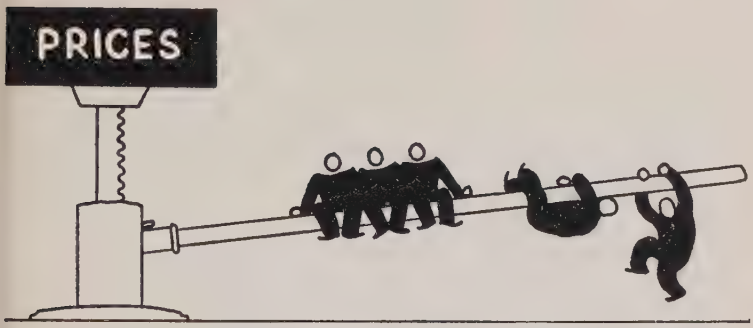
MR. HART: Just offhand (and as I indicated, I am a bit off my base when I get this far into questions of government structure), it seems to me that the thing to do would be to have a committee on wartime food problems rather than a committee on agriculture. Food is a problem the city is interested in. The city congressman would be interested in it, and he would serve as a counterpart to the farm-bloc representative. As it is, we have a completely one-sided grouping, and the members of committees simply do not include people who see certain other aspects of the situation.

MR. STIGLER: Do the farm senators, for example, represent the farm leaders or the farmers themselves?

MR. COX: My impression is that the senators are talking for the farm leaders even more than for the individual farmers such as those that I personally know.

Certainly we have the possibility of getting selective increases in the production of some products, or the alternative possibility of

WHAT MAKES PRICES RISE?



being able to restrain the prices of some products by the use of subsidies, whether or not we would feel that those were ideal.

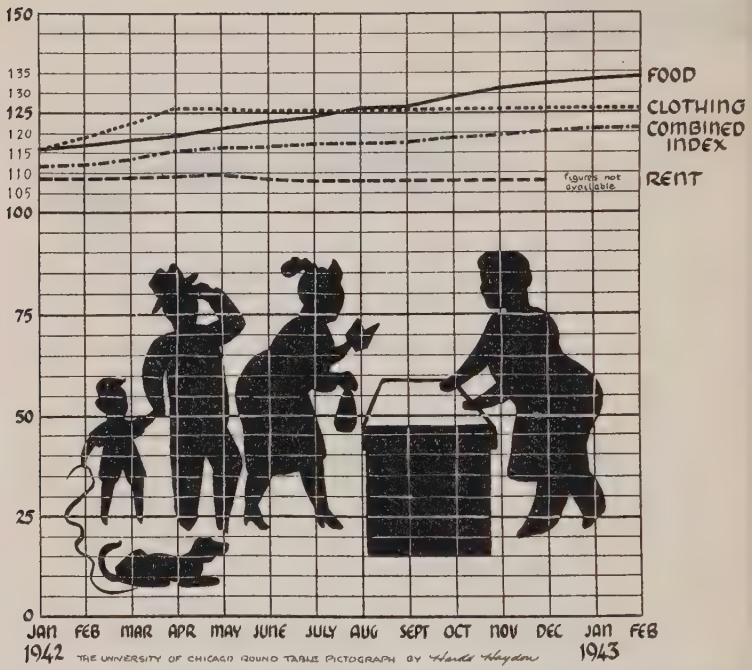
MR. STIGLER: I am not so happy about the subsidy picture. The general technique is simple enough. What is going to happen is that we are going to give bonus payments to farmers. We may give them directly to farmers, or we may give them to packers, telling the packers to pay a high price for meat but sell for a lower price. It seems to me that unless we can really whip the political issue—that is, assert the dominance of the national interest over special interests—we are just as likely to end up by giving subsidies to cotton producers as we are to the soya-bean producers.

MR. COX: It may be very hard to stop the subsidies after the wartime emergency is over.

MR. HART: There is this about it. The Administration is talking about subsidies directly in line with the hold-the-line policy. That is, they are thinking of starting with specific food prices and trying to make sure that they can be kept in line while making appropriate farm-price adjustments. I think that we can be happy to say that that is not going to come awfully close to short-staple cotton. Short-staple cotton is not very important to the consumer, or we might have to take it more seriously as a war crop.

THE RISE IN THE COST OF LIVING*

1935–39 = 100



* The combined index on this chart includes other factors in living costs besides food, rent, and clothing. This is a United States Department of Labor index.

MR. STIGLER: What you are saying is that you think that we can restrict it to the proper role?

MR. HART: From the starting-point.

MR. STIGLER: How would you sum up this general picture on the farm outlook and inflation, Hart?

MR. HART: If we look back, I think that we certainly have to say that the farm-price policy has been inflationary down to date—inflationary in two ways. It has given the farmers a huge income and it has raised food prices and thus pushed up living costs and in-

tensified demands for higher wages. The excuse for this has been that we were trying to use farm prices to help production. Actually we could have had a much better influence on getting the right kind of farm production with a much smaller increase of the farm-price level if we had held down the farm prices of those products that should not have been allowed to go up. We've taken this inflation, but we haven't got our price for it in terms of converting agriculture to war.

The Administration is trying to hold the line now, and the rank-and-file farmers, I must say, show every indication of liking the policy. But the farm leadership has in the past sabotaged such measures, and I am afraid we do not have any adequate guarantee they will not do it again.

MR. STIGLER: One cannot talk very long about cost of living and farm prices without going into the wage question. What is the general setting? How prosperous are the wage-earners?

MR. COX: I think that Hart mentioned just a little while ago that wages and salary totals have gone up 65 per cent in 1942 over those of 1940. In key industries in the field of war production, total pay rolls are up as much as 160 per cent over those of 1940. Over half of this increase, however, is due to an increase in employment rather than to increases in rates. Per capita wages seem to be up about 50 per cent in 1942 over 1940, and, of course, they are still higher now.

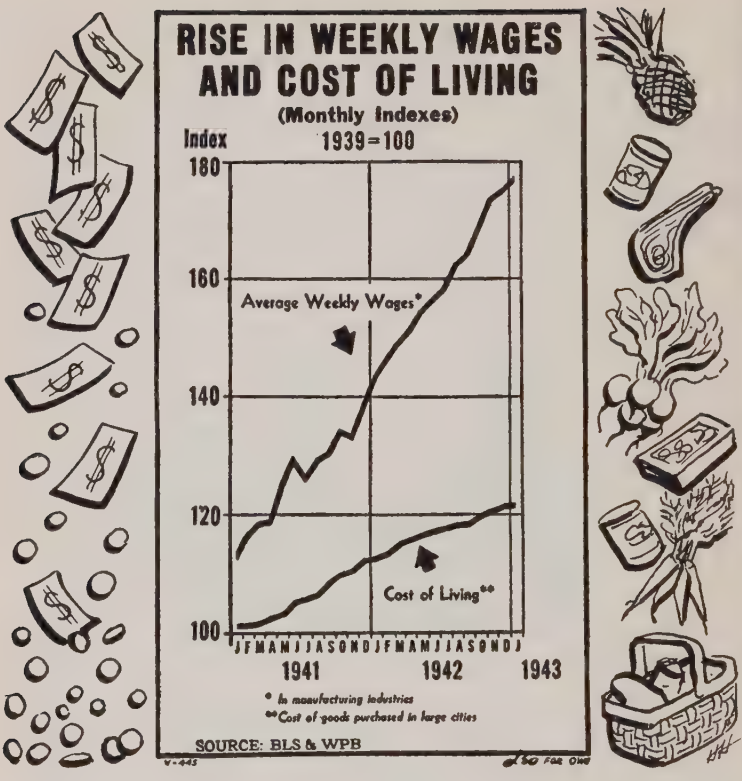
MR. STIGLER: That's a phenomenal increase—50 per cent in two years.

MR. COX: It certainly is.

MR. STIGLER: The white-collared worker is not very happy when he thinks of that. I should say the "frayed-collared" worker.

MR. COX: That is true.

MR. HART: But the white-collared worker ought to remember that the people that are doing the war work ought to be expected



to be paid for it. On the whole, white-collared workers are more the passengers than the crew in the present situation.

MR. STIGLER: I should say that that is a challenge to the War Manpower Commission rather than a reflection on wage disputes.

MR. COX: Of course, one thing we must bear in mind here is that, however much justice there may be in the demands of any particular group for wage increases from a standpoint of equity compared with others, every general increase for a large group of workers does boost the national income substantially and, therefore, increases the inflation threat in view of the shrinking quantity

of goods that can be bought. Wages and salaries in 1942 were over 70 per cent of the total national income for the first time in our history. They are, of course, still rising.

MR. HART: In terms of the increase, from 1940 to 1942 the national income rose forty billions. Thirty-two and a half billions of that increase is in the wage and salary incomes; five, in the farm incomes; and two and a half, in all other types. It is pretty plain that one cannot talk about stabilization without the stabilization of wages being involved.

MR. STIGLER: Let us turn to a special case—the coal dispute of the present time. I am prepared to argue that the miners have done pretty well during the last four or five years. If we really go in and give them an increase, it will be an increase based primarily on the fact that they have a lot of political power.

MR. HART: In any case, whether or not they have been having the breaks, if we start saying that now is the time to make exceptions, then, after all, *everybody* can put up a claim for exceptions. It simply does not mix where we're trying to make a resolute effort. As President Roosevelt said, the way to hold the line is to decide how we are going to hold the line and not to look for reasons why we should not do it yet.[9]

MR. STIGLER: We can always find those exceptions. I am also somewhat opposed to the idea of trying to discredit the War Labor Board. Do you not think that with it would go the Little Steel formula and that we would be pretty much at sea again?

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[9] President Roosevelt said: "To hold the line we cannot tolerate further increases in prices affecting the cost of living or further increases in general wage or salary rates except where clearly necessary to correct substandard living conditions.

"The only way to hold the line is to stop trying to find justifications for not holding it here or not holding it there.

"No one straw may break a camel's back, but there is always a last straw. We cannot afford to take further chances in relaxing the line. We already have taken too many . . . ." (*New York Herald-Tribune*, April 9, 1943).

Mr. Cox: One of the things that I dislike most is not the fact that the miners are asking for more wages, which was being done in many fields, but the tactics that have been used. Such tactics on the part of the leadership seem to me to imply trying to throw overboard the machinery which is to be looked to in holding the line.[10]

Mr. Hart: Does this mean that you are taking the Little Steel formula as the Golden Rule?

Mr. Stigler: It is as golden as anything we can hope for now. As you know, it says that we are going to try to hold wage increases at 15 per cent above January 1, 1941. It seems to me that if we can build up enough public sentiment about that, that's about the very best we can do. Do you know any alternatives that are better?

Mr. Hart: There is the alternative of putting wages on a sliding scale, but I certainly would not be for it. If we start on the principle that whenever living costs go up, one gives people more money, when the cause of living costs' going up is that they have too much money to spend already, it is plain that inflation may lie in that direction, but a rectification of living standards does not.

Mr. Cox: To summarize, we recognize, do we not, that each labor group that presses for higher wages can make an impressive case for its demands? But each group, in trying to better its relative position, spurs other groups to similar attempts. Widespread success of labor demands for more wages to buy a declining quantity of goods will raise the cost of living instead of maintaining the standard of living.

It is encouraging just now to see that the C.I.O. leaders, in executive session, are officially indorsing the hold-the-line effort of the government. Let us hope that the actions will be as good as the

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[10] The United Mine Workers are asking for a $2.00 a day wage increase, portal-to-portal pay (they are not now paid for the time it takes to get from the mine entrance to the place of work or for the return trip), jurisdiction over 50,000 mine foremen, and a guarantee of 52 six-day weeks of work a year.

pledge.[11] Let us hope also that the government and other interests will do their share to hold the line. Certainly there is a notable absence in labor's demands of emphasis upon higher taxes as a way of absorbing excess purchasing power.

MR. STIGLER: We have covered the agricultural problem and the wage discussion in our hold-the-line discussion.

We come to our third general question, which is price control. Here I would like to say, at the outset, that I think the American people have been pretty naïve in this field. In considerable part they have seemed to think that all we have to do is to announce a price ceiling. Thereafter, one goes to the stores and buys the regular quantities of goods, but just at lower prices. They do not seem to realize that price control makes rationing necessary. They do not seem to realize what an enormous task it is to enforce the ceilings and the rationing allowances.[12]

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[11] The executive board of the C.I.O., meeting on May 15, 1943, reaffirmed its policies covering certain national economic issues. They repeated the C.I.O.'s no-strike pledge for the duration of the war; they demanded that prices be rolled back to the date that wage stabilization became effective; they demanded "effective enforcement of price ceilings and ruthless prosecution of violators"; they called upon Congress to limit net annual income to $25,000 after taxes; they called for the defeat of the Ruml income-tax plan and for the enactment of equitable tax measures; they demanded the elimination of war profits above the 1939 peacetime level and the end of other "financial privileges," among other things.

[12] During 1942 the Office of Price Administration placed controls over the prices of almost everything the people of the United States eat, wear, and use. The Emergency Price Control Act of 1942, giving the OPA statutory authority, became law on January 30, 1942. Under this program a widening sphere of activity saw ration boards established in every county of each of the forty-eight states. On April 28, 1942, the General Maximum Price Regulation was issued, an omnibus order that took in everything Congress had not excluded from control or that was not already covered in earlier regulations.

The success of the "General Max" in halting the advance in the cost of living did not continue long. Extra-parity provisions for farm products in the Price Control Act left uncontrolled nearly 40 per cent of the items in the average family's food budget. Secondly, heavy taxation and wage stabilization were lacking. [*continued on p. 16*]

MR. COX: They seem to think that if we just issue a decree that prices are to be such and such, then business can go on as usual and the prices be held.

MR. HART: There is an old American tradition in favor of passing a law. The question really is, I think, where do these difficulties come from? Why is it that we have to watch our step?

MR. STIGLER: Even for those people who obey the law (and I think that that is most of them) there are all kinds of trick evasions. For instance, there is a rule that if one changes the product so that it is merely similar to one that was made in the base period, one can use a very intricate formula for pricing it, which usually helps the seller. As a result, we have seen some rather striking increases in the number of commodities which are now similar rather than the same.

MR. HART: Look at the nickel candy in the stores.

MR. STIGLER: Another aspect is the quality deterioration. We find that the clothes we buy are not so good as they were and that the canned goods we buy probably are not so good as they were.

MR. COX: There has been the urgent demand from consumer organizations for grade-labeling in that direction to help the consumer enforce the prices. I understand that that has been shelved

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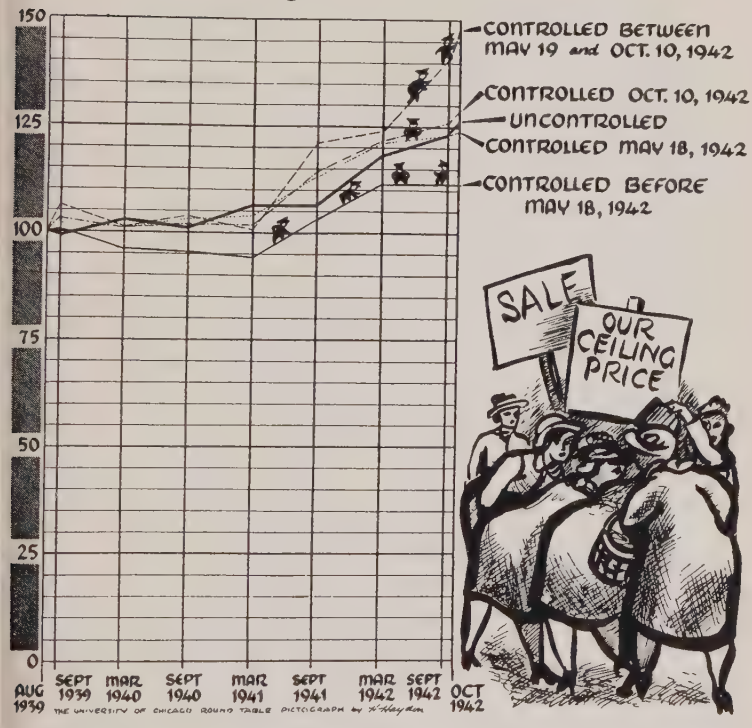
During the summer of 1942 the cost of living resumed its upward march. The OPA was forced to make "adjustments"—increases in ceiling prices so that necessary commodities could continue to be sold. On September 6 the President asked Congress to furnish the administration with a revised and workable piece of anti-inflation legislation. The stabilization act of October 2, 1942, allowed the President to create the Office of Economic Stabilization. Immediately the OPA brought all the hitherto exempt food items under control. Many items covered at first by the General Maximum Price Regulation were later placed under individual regulations specifically tailored to the practices of particular trades and industries. Prentiss M. Brown replaced Leon Henderson as administrator of OPA at the end of 1942. As described elsewhere in the transcript, the OPA has undertaken to roll back prices 10 per cent on certain selected foods. Administratively, it is worthy of note that Congress has declined to let the OPA employ more than about a thousand price investigators and none of them is allowed to make purchases to determine whether commodities are being sold above ceiling prices.

CONTROLLED VERSUS UNCONTROLLED PRICES*

August 15, 1939 = 100



* Does not include rent, utilities, and several other minor items. Department of Labor index.

for the time being at least. Maybe it is not practicable, but if it is not a practicable thing to put in in an emergency, it is going to make the matter of policing prices far more difficult.

MR. HART: I do not want to condone any devices for concealing price increases, but we have got to remember that quality deterioration does not always mean that we are being "gypped." We are operating in a war where lots of things are scarce, and we just cannot

provide people with commodities de luxe. We have to have stripped-down war models of a lot of things, and we must not feel that we are being swindled.

MR. STIGLER: There is, finally, one other problem I would like to raise. That is the black market. Thus far we have had just a little of it so far as we can tell, but we are likely to have more of it. It would be very demoralizing and might easily involve the whole loss of the battle against inflation. What is the limit in that direction in the food line?

MR. HART: We really have not had too much of a test yet. These black markets that we had have showed us that there is a danger there. They have showed us that one can build up a black market very quickly. On the other hand, we did not fix things so that the consumer who was buying black-market meat had his nose rubbed in the fact that he was buying black-market meat. We did not fix things so that the farmer whose livestock was going on the black market knew that he was selling to somebody for black-market operation. Until a beginning in solving that situation was made, we could not get very far.

MR. STIGLER: I just want to add one very short note. At the present time we have about a thousand full-time inspectors in food control pricing and rationing. Great Britain finds that it needs many more than that. My own guess is that we are going to have a terrible time getting the manpower. They have to be good people, and a lot of them—thirty thousand or fifty thousand perhaps.

MR. HART: There is no use fooling ourselves that we can run this kind of a system without really being able to check up. We have to have things fixed so that nobody can buy meat without coupons and so that those meat coupons cannot be allowed to get back into circulation. They have to be counted right and put into the banks and disposed of properly. The system has to be more or less foolproof, or the minority that chisels will grow on us.

MR. COX: One thing we have already discussed in an earlier connection is the matter of subsidies and the roll-back of prices that are supposed to be made possible by putting subsidies into effect on selected articles. What do you think is the advantage of that, or the disadvantage of it, from the standpoint of national policy?

MR. STIGLER: I might say that I am cool to that proposal, just as the farm bloc is. My reason for coolness is that it is inflationary in its direct effect. We are going to have larger governmental deficits. Secondly, I am always worried about post-war commitments in which these bonuses will keep on going a long time after the war is over.

MR. HART: In that case, your reason for being against them is somewhat different from the farm bloc's. I suspect you are thinking in terms of the alternative—marking down farm prices—whereas the farmer is rather inclined to think in terms of the alternative of charging the consumer more, and that is likely to play hob with the wage settlement.

MR. COX: Of course, we have a much better chance of holding the line on wages if such subsidies can be put into effect.

MR. HART: And if we can make sure that the consumer gets the benefit. That is, there is an enforcement problem in making sure that the subsidy goes where it is supposed to go, just as there is in price control and rationing in general.

MR. STIGLER: I might say that there are a lot of administrative problems in the subsidy itself, and I do not like the early estimates of the cost of subsidies. These estimates are running around a half a billion a year. That seems to me to be almost inexcusably conservative. The actual techniques also are going to be hard to work out. Are we going to give the subsidies to the farmers, to the wholesalers, to the packers, or to the retailers? In many fields we cannot use subsidies at all, because there is no bottleneck where it is easy to hand out the money.[13]

[13] "The cost of subsidies is estimated at $300,000,000 to $500,000,000, the

Mr. Hart: From that standpoint, though, they have been talking about concentrating on commodities which we are trying to ration and which, on the whole, seem to be reasonably well under control. We will have to strengthen our controls to keep them working, but we have made a fair beginning.

Mr. Cox: One thing we should notice is that rationing, which we have already mentioned as a necessity for price control, will help us on the fiscal side—that is, on the side of getting more of the community's excess income in for government financing rather than for spending for price advances in the commodity market. There is also the point that if we are able by the rationing and the increase in the amount of money that people therefore save, automatically, because they can't spend it beyond their quotas, there is a chance there of improving the revenues of the government.

Mr. Hart: That's a hope.

Mr. Cox: It also eases the labor pressures for higher wages.

Mr. Stigler: Those are all very true. In summary of the question of Uncle Sam's price control policies, I think we can say at the outset that they are going to be most effective if we do not have to use them too heavily. That is, if they are accompanied by very strong fiscal policies. Furthermore, we can say that they are best when they are used as a stopgap policy while we are getting a tax program written, and that takes quite a bit of time if there is anybody named Ruml around. We also can say that they are quite useful in combatting specific monopoly demands, and, among those, I would number the labor unions.

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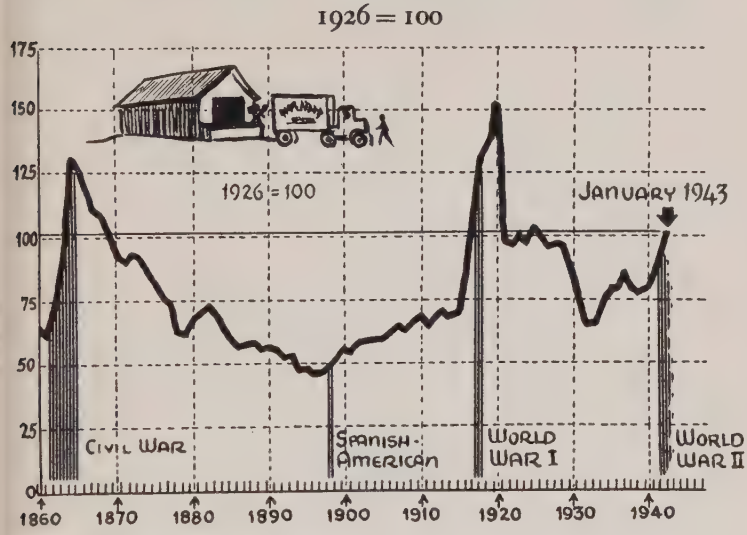
latter represented as an outside figure which would be sufficient to take care of some other essential items should it be decided to add them. . . . . The Federal Government is already paying out about $500,000,000 to subsidize the prices of such commodities as coal, oil, grains used to make industrial alcohol, edible vegetable oils and fats, copper, lead and zinc, coffee, cocoa, sugar, tea, tobacco, canned tomatoes, peas, sweet corn, snap beans, and cheddar cheese . . . ." (John MacCormac, "Food Price Cut Set on Subsidy Basis with Funds of R.F.C.," *New York Times*, May 8, 1943).

THE TREND OF WHOLESALE PRICES



Source: Department of Commerce.

As to the future, that is uncertain. There is hope that we will correct some of our more obvious administrative errors and get an adequate staff, but we will have to wait and see. It is by no means clear that we are winning the battle on the price control front.

Since we have been talking so much about taxation at one point or another, what is the general view of the fiscal problem?

MR. HART: It is very plain if we try to rely exclusively on these hold-the-line methods that the enforcement problems which you were talking about a minute ago, Stigler, on price control, rationing, and so forth, are going to get to be very serious. There is such a tremendous discrepancy between the amount that the public has to spend and the amount of goods that is coming on the market for the public to buy that all these problems are made very much more dangerous.

The system which would work when we had a fifteen-billion-dollar excess of spending power may prove to be just pitifully inade-

quate if we have a forty-billion-dollar excess spending power. The tax problem can be viewed as the backside of the problems at which we have been looking.

MR. STIGLER: There is another side to this, and that is winning the peace. I am afraid of a post-war inflation, too. People will have lots of savings by that time—perhaps two thousand dollars will be in bonds and checking accounts for the typical worker. Does that bother you any?

MR. COX: Yes. There is no question in my mind but if we have very large quantities even of savings bonds that are cashable on demand, or on a few weeks' or months' notice, that those might be cashed and spent rather heavily. This would give us quite a run-up of prices.

In any event, we have twice as large a volume of checking deposits and currency in circulation in this country as we had three years ago. Every time we have a bond campaign, such as the last one, in which three times as many bonds are sold to the banks as are taken in the form of Series E Savings Bonds, we give a further pressure to the rise.

MR. STIGLER: There is another point that worries me. After the war we are going to be awfully tired of price controls and rationing, and the lid may well go off. We will say that we will take our chances on inflation rather than OPA.

MR. HART: Which certainly does indicate that we ought to try as far as possible to forestall that by taking money away now through taxes in a form that will not come back on us. We must say on the tax front that we have made a big gain in machinery in the past few weeks. Either the House or the Senate bill that has just gone through, whichever we get, is going to give us the machinery that it takes to collect war taxes and make them effective. But the ground has scarcely been prepared at all for the amount of revenue that must be raised. It has not been rubbed in on the public really what we must face.

We have been talking for months about the best way to forgive taxes when we should have been talking about the best way to get revenue up several tens of billions per annum—and to do it quickly.

The ROUND TABLE, *oldest educational program continuously on the air, is broadcast entirely without script, although participants meet in advance, prepare a topical outline, and exchange data and views. The opinion of each speaker is his own and in no way involves the responsibility of either the University of Chicago or the National Broadcasting Company. The supplementary information in this transcript has been developed by staff research and is not to be considered as representing the opinions of the* ROUND TABLE *speakers.*

TEST YOUR *Reader's Quotient*

This test will enable you to judge your grasp of the ROUND TABLE *discussion. Turn to page 27 to check your answers.*

1. How much has the net income of the farmers increased in the period from 1940 to 1942?
2. Who said, "The relation of farm costs to farm income is the most favorable ever attained in our history"?
3. What farm products should have expanded production because of wartime needs?
4. What committee does Mr. Hart suggest to replace the present congressional agricultural committees?
5. Why does Mr. Hart say that farm price policy has been inflationary down to date?
6. How much has the total of wages and salaries gone up in 1942 over 1940?
7. How much is per capita wages in 1942 above 1940?
8. What part of the national income in 1942 consisted of wages and salaries?
9. What is the Little Steel formula?

More on This Topic

BYRNES, JAMES F., "Next Steps against Inflation," *Vital Speeches*, March 1, 1943. *The Director of Economic Stabilization reviews the success of the struggle against inflation and emphasizes the necessity for controlling prices and wages.*

CLARK, EUNICE, "Mr. Per Capita and Inflation," *Common Sense*, April, 1943. *A look at the inflation problem from the viewpoint of the average man.*

CLARK, JOHN M., *How To Check Inflation.* "Public Affairs Pamphlets," No. 64. New York: Public Affairs Committee, 1942. *An authoritative analysis of the problem of inflation control.*

"Danger of Post War Spending," *United States News*, May 21, 1943. *The increasing supply of unspent money in the hands of the public constitutes an inflation threat in the post-war period.*

"Hole in the Price Ceiling: New Drive To Stem Inflation," *United States News*, April 16, 1943. *Analyzes the effects of the President's hold-the-line order against inflation.*

"Inflation Can Still Be Checked," *Fortune*, March, 1943. *Reviews the status of the President's seven-point anti-inflation program.*

LELAND, SIMEON E., "The Struggle for the Control of Inflation," *University of Chicago Magazine*, April, 1943. *Says that it is in the interest of all that prices be stabilized at present, or even lower, levels; that wages be fixed; that excess funds be transferred to government use; but that some groups are placing their economic advantage ahead of the general welfare.*

"Prices, Wages, and Taxes," *Nation*, May 8, 1943. *Questions the wisdom of a policy of rolling back prices and recommends a good stiff tax program.*

WARREN, ROBERT; JONES, HOMER; *et al.*, *Financing the War.* Philadelphia: Tax Institute (Wharton School of Finance and Commerce, University of Pennsylvania), 1942. *The published papers of a symposium on the subject. Of particular relevance is the section on "Control of Inflation through Revenue Policies."*

See current issues of the *Monthly Labor Review*, *Victory Bulletin*, and *Survey of Current Business* for material on cost of living, wage statistics, and farm and business conditions.

The People Say . . . .

The following letters are representative of the views expressed by the ROUND TABLE *audience on "Is the Good Neighbor Policy Here To Stay?" broadcast May 9, 1943.*

*

Cuban Sugar

. . . . Having lived in Cuba and since my family still lives there, Pan-American relations are of primary interest to me. I was particularly interested in the concern shown by one of the speakers concerning expropriation of American capital invested in Latin America. If this has come about, it is as a result of unfair practices on the part of American capitalists during the regime of "dollar diplomacy." Undoubtedly the drastic steps taken by the Mexican government have caused some grave injustices to some American investors in Mexico, but in principle I believe that it was the proper thing to do.

The same thing should happen to the large sugar plantations in Cuba. Most of the Cuban *colonos* who operate sugar plantations are nothing more than a modified system of the old feudal system with vassals and serfs. . . . .—*A listener from Wichita, Kansas.*

*

Want To Be Friends and Neighbors

. . . . I like the way you are trying to solve the problems between Mexico and the United States. For so long we Mexicans have been treated like an old greased rag, have been discriminated against, and blacklisted. . . . . It would be fine to be able to have an understanding and relationship between the two countries so that we would speak to one another as neighbors and friends. Our good President F.D.R. and Nuestro Amigo Vice-President Wallace have been trying to show us the right way to be friends. We Spanish-speaking people—especially Mexicans—like people like you to tell your people that we want to be treated as friends and neighbors and we want to forget the past.—*A listener from Los Angeles, California.*

*

Must Change Our Ways

. . . . The natives of Central and South America hate the average boastful American, who looks down and sneers at the native population, crowds them off the sidewalks, acts as if he wonders what excuse they have for living. By our acts they know us. We must change our ways to gain the respect of the common people.

Do you wonder that the native (not the politician) questions the sincerity of the Good Neighbor policy. . . . . My observation as to how

to develop the Good Neighbor policy is to do something that will substitute the "inferiority complex" that affects the average native with a "superiority complex" that will arouse ambition and encourage individual initiative. . . . .—*A listener from Chicago, Illinois.*

*

Fairness in Cooperating

. . . . The United States should supply what funds are required for the development of Latin-American resources under a plan that would be mutually profitable and not exploitive. Good relations cannot be promoted by salesmanship methods resembling those of the vacuum-cleaner agent. Satisfactory and continuing commercial relations can be promoted only by fairness and a desire by both groups to cooperate. Through cooperation a distributive system should be developed for products of which we both have a surplus. . . . .—*A listener from Emington, Illinois.*

*

License To Exploit

. . . . May the Lord preserve us from any policy giving American business private enterprise a "free" hand in the development of Latin-American resources. Allow them to enter into the development, yes, by all means. Too many American businesses consider a free enterprise as a license to exploit, as witness the oil and mining developments in Mexico. Some sort of a check rein must be kept on "free" American enterprise. . . . .—*A listener from Jersey City, New Jersey.*

ANSWERS TO *R.Q.* TEST ON PAGE 24

1. 120 per cent.

2. Janes Byrnes, director of the Office of Economic Stabilization.

3. Soybeans, peanuts, potatoes, long-staple cotton.

4. Committee on Wartime Food Problems.

5. It has given the farmers a huge income, raised food prices and living costs, and intensified demands for higher wages.

6. 65 per cent.

7. About 50 per cent.

8. 70 per cent.

9. A War Labor Board ruling that wage increases for any group are limited to a 15 per cent increase above the level of January 1, 1941, except in cases of gross inequity.

ROUND TABLE NETWORK OF 119 STATIONS

2:00 P.M. EASTERN WAR TIME

City	Call Letters	Kilocycles	City	Call Letters	Kilocycles
Allentown, Pa.	WSAN	1470	Martinsville, Va.	WMVA	1450
Altoona, Pa.	WFBG	1340	Miami, Fla.	WIOD	610
Asheville, N.C.	WISE	1400	New York, N.Y.	WEAF	660
Atlanta, Ga.	WSB	750	Norfolk, Va.	WTAR	790
Bluefield, W.Va.	WHIS	1440	Philadelphia, Pa.	KYW	1060
Boston, Mass.	WBZ	1030	Pittsburgh, Pa.	KDKA	1020
Charleston, S.C.	WTMA	1250	Portland, Me.	WCSH	970
Charleston, W.Va.	WGKV	1490	Providence, R.I.	WJAR	920
Charlotte, N.C.	WSOC	1240	Raleigh, N.C.	WPTF	680
Cincinnati, Ohio	WLW	700	Reading, Pa.	WEEU	850
Clarksburg, W.Va.	WBLK	1400	Richmond, Va.	WMBG	1380
Cleveland, Ohio	WTAM	1100	Rochester, N.Y.	WHAM	1180
Columbia, S.C.	WIS	560	Savannah, Ga.	WSAV	1340
Detroit, Mich.	WWJ	950	Springfield, Mass.	WBZA	1030
Florence, S.C.	WOLS	1230	Springfield, Ohio	WIZE	1340
Grand Rapids, Mich.	WOOD	1300	Syracuse, N.Y.	WSYR	570
Greenville, S.C.	WFBC	1330	Tampa, Fla.	WFLA	970
Greenwood, S.C.	WCRS	1450	Toledo, Ohio	WSPD	740
Jacksonville, Fla.	WJAX	930	Washington, D.C.	WRC	980
Johnstown, Pa.	WJAC	1400	Williamsport, Pa.	WRAK	1400
Harrisburg, Pa.	WKBO	1230	Wilmington, Del.	WDEL	1150
Lakeland, Fla.	WLAK	1340	Winston-Salem, N.C.	WSJS	600
Lima, Ohio	WLOK	1240	York, Pa.	WORK	1350

1:00 P.M. CENTRAL WAR TIME

Birmingham, Ala.	WBRC	960	Louisville, Ky.	WAVE	970
Bismarck, N.D.	KFYR	550	Madison, Wis.	WIBA	1310
Chicago, Ill.	WMAQ	670	Mankato, Minn.	KYSM	1230
Dallas, Texas	WFAA	820	Memphis, Tenn.	WMC	790
Des Moines, Iowa	WHO	1040	Mobile, Ala.	WALA	1410
Duluth, Minn., and Superior, Wis.	WEBC	1320	Montgomery, Ala.	WSFA	1440
Eau Claire, Wis.	WEAU	1070	Nashville, Tenn.	WSM	650
El Paso, Texas	KSTM	1380	New Orleans, La.	WSMB	1350
Evansville, Ind.	WGBF	1280	Oklahoma City, Okla.	WKY	930
Fargo, N.D.	WDAY	970	Omaha, Neb.	WOW	590
Fort Wayne, Ind.	WOWO	1190	Rochester, Minn.	KROC	1340
Hattiesburg, Miss.	WFOR	1400	St. Cloud, Minn.	KFAM	1450
Hibbing, Minn.	WMFG	1240	Shreveport, La.	KTBS	1480
Houston, Texas	KPRC	950	Sioux Falls, S.D.	KSOO	1140
Indianapolis, Ind.	WIRE	1430	Springfield, Mo.	KGBX	1260
Kansas City, Mo.	WDAF	610	Terre Haute, Ind.	WBOW	1230
Kingsport, Tenn.	WKPT	1400	Tulsa, Okla.	KVOO	1170
La Crosse, Wis.	WKBH	1410	Virginia, Minn.	WHLB	1400
Little Rock, Ark.	KARK	920	Wichita, Kan.	KANS	1240

12:00 M. MOUNTAIN WAR TIME

Albuquerque, N.M.	KOB	1030	Phoenix, Ariz.	KTAR	620
Billings, Mont.	KGHL	790	Pocatello, Ida.	KSEI	930
Boise, Ida.	KIDO	1380	Safford, Ariz.	KGLU	1450
Bozeman, Mont.	KRBM	1450	Salt Lake City, Utah	KDYL	1320
Butte, Mont.	KGIR	1370	Tucson, Ariz.	KVOA	1290
Denver, Colo.	KOA	850	Twin Falls, Ida.	KTFI	1270
Helena, Mont.	KPFA	1240	Yuma, Ariz.	KYUM	1240

11:00 A.M. PACIFIC WAR TIME

Bakersfield, Cal.	KERN	1410	Sacramento, Cal.	KFBK	1530
Fresno, Cal.	KMJ	580	San Diego, Cal.	KFSD	600
Los Angeles, Cal.	KFI	640	San Francisco, Cal.	KPO	680
Medford, Ore.	KMED	1440	Seattle, Wash.	KOMO	950
Portland, Ore.	KGW	620	Spokane, Wash.	KHQ	590

STATIONS CARRYING ROUND TABLE BY TRANSCRIPTION

Buffalo, N.Y.	WBEN	930	Minneapolis and St. Paul, Minn.	KSTP	1500
Columbus, Ohio	WCOL	1230	St. Louis, Mo.	KSD	550
Milwaukee, Wis.	WTMJ	620	Schenectady, N.Y.	WGY	810
Minneapolis, Minn.	WLB	770			

BY TRANSCRIPTION VIA SHORT WAVE

Anchorage, Alaska	KFQD	790	Juneau, Alaska	KINY	1450
Fairbanks, Alaska	KFAR	610	Ketchikan, Alaska	KTAN	930

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A University of Chicago Round Table Broadcast

MAY 23, 1943

THE STRATEGY OF FOOD

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JOHN D. BLACK, Department of Economics, Harvard University

DR. PAUL R. CANNON, Department of Pathology, University of Chicago

T. W. SCHULTZ, Department of Economics, Iowa State College

•

SUGGESTED READINGS

HOOVER, HERBERT, "We'll Have To Feed the World Again," *Collier's*, November 28 and December 5, 1942.

KINGSLEY, J. DONALD, "America on Short Rations," *Current History*, February, 1943.

MOTHERWELL, HIRAM, "The Strategy of Feeding Europe," *Harper's*, January, 1943.

"Nutrition and Food Supply: The War and After," *Annals of American Academy of Political and Social Science*, January, 1943.

"Where Is All Our Food Going?" *Reader's Digest*, May, 1943.

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